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KEEPING OUR REPUBLIC
TRADING WITH ASEAN
LATIN AMERICAN OPPORTUNITIES
ISRAEL IN THE VILLAGE
MARKET STATES AND TERROR

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PUBLIC POLICY

The case for freedom*India can't afford to delay the liberalisation of its economy*

RAVIKIRAN RAO

A VISITOR from the 17th century on a trip to the year 2009 would be rather surprised to learn that the United States of America is in distress. He would, of course, be no stranger to troubled times; but in his time, troubles came in the form of famines, diseases, strife and taxes. This blight called "recession" that has struck the United States would seem strange to him. Factories that were at full steam two years ago are now idle, though their productive capacity is undiminished. Healthy men and women who were working in those factories now sit at home. Goods lie in warehouses even while vehicles to transport them in and roads to carry them on remain intact. Further inquiry would reveal that the cause of the United States' trouble is a breakdown in the system by which it co-ordinates demand and supply, present and future consumption, and risk and reward. Though the visitor would not be prepared for the scale and sophistication of the system that has now suffered a setback, he would be no stranger to the idea of markets. Markets and traders have existed for as long as humankind has, and so have attacks against them.

Defending free trade and free markets has never been an easy task at the best of times. Defending financial markets is an even tougher proposition. If our visitor is from Europe, he would know of pogroms against Jewish money-lenders, conducted by princes unable to repay the money they recklessly borrowed. Trading and money-lending have always been little-understood professions; the role they play in society has always been questioned. At *Pragati*, our stated mission is to further the Indian national interest, which, we continue to believe, is served best through economic freedom. It is natural that at times like these, when "greed" and "unregulated markets" roll off the tongues of detractors like a well-practised refrain, our continued belief requires some explanation.

An important part of the explanation is to reflect on the fact that if our 17th century visitor is offered a choice between suffering the disasters he has experienced and the one that he is witnessing, he will unhesitatingly choose the latter. India, along with all of humanity, faces a similar choice.

Photo: Kishore Nagarigari



Its former finance minister, P Chidambaram, has boasted that India has escaped the malaise that has struck the world because it has "regulated" its markets better. He has neglected to mention that this narrow escape has come at a cost. The cost is that India suffers the continuing disasters of poverty, malnutrition and backwardness. Percy Mistry, noted proponent of open financial markets, has asked why India is willing to forgo 30 percent of GDP growth in order to stave off a financial shock once in a decade that will cost it 3 percent. This is a valid question that must be asked more often, and the 30 percent of GDP that India loses should be quantified in terms of human costs.

The cost is paid by the farmer who is forced by law to sell his produce to the Agricultural Produce Marketing Commission, controlled by thuggish local politicians. It is extracted by government officials who stalk the borders of every city and every state, holding up trucks carrying the farmer's produce for hours and days. The cost that they extract, in bribes, time and waste, is paid by the farmer who could have got more and by the consumer who could have paid less. The inability to conduct trade and transport over long distances within India means that industries are concentrated in a few small cities, which in turn means that the farmer, if he does decide to migrate, has to travel far more than he should have to.

The government expropriates Indian citizens' savings and "invests" them in wasteful schemes. And to ensure that this continues, it prevents a

decent bond market from developing. This hampers the economy and prevents companies from making investments. Government-owned banks make politically-directed loans, which cuts off credit for productive small businesses. The government mandates that certain products can only be produced by "small-scale" industries, and this provides an incentive to those industries to stay small artificially. They hold back from making investments that will give them advantage of scale, and keep workers off the rolls to avoid hitting the upper limit. The cost paid by the factory worker who works in the unorganised sector must surely count in the 30 percent of the GDP that India loses every decade.

Sadly, as the Kannada proverb goes, no one weeps for the one who dies every day. The pride that the supporters of the *status quo* experience, based on the claim that India has escaped this contagion, is rather unfounded. In any case, India's daily deaths have not immunised it from periodic disasters. India's "strict" regulations did not prevent it from reaching the verge of bank-

have been prevented. Booms and busts are endemic to capitalism—indeed to all economies. We may find, once the dust has settled, that some mistakes may indeed have worsened the magnitude of the crisis, but it is highly unlikely that anything could have prevented a recession.

Of the various claims regarding the cause of the recession, one is particularly relevant to India—that the United States got its comeuppance because it was "living beyond its means". This claim is, by all accounts, true. But it is also true that one can live beyond one's means only if others let him. The others in question are countries like China, Japan and India that worship at the altar of export-driven growth. The dogma that exports are better than imports leads to baffling policy choices. This in turn leads to consumers of poorer countries subsidising housing booms in rich countries. The shocking decline suffered by Japan in the last quarter of 2008 is a result of decades of such policy fallacies. India's record in this regard is not as terrible as Japan's or China's, but it is still a lesson that needs to be learnt.

Likewise, there will be a lot to learn on how to get out of this jam, and here too, there are many incorrect lessons to avoid. By all accounts, the bailouts seem like good examples of the latter. The importance of transparency, however, is an example of the right kind of lesson. Financial markets are frozen currently, because banks and other institutions have no way to quantify the value of the assets on their books. Economist Hernando de Soto has pointed out that what is a temporary condition in the advanced economies is a chronic condition in the property markets in countries like India. Slum-dwellers are unable to monetise the value of their land or possessions, because property rights are ill-defined and unrecorded.

The most important lesson that India can learn, however, is that it is important to be prosperous enough to be able to weather crises. We, at *Pragati*, believe that the road to prosperity lies through economic freedom—free trade, free markets, rule of law, low and non-distortionary taxes, enforcement of contracts, light but consistent regulations, sanctity of property rights. You may have heard this song before. We shall sing it till it is really heard. And then again.

The most important lesson for India is that it is important to be prosperous enough to be able to weather crises. The road to prosperity lies through economic freedom.

ruptcy in 1991. Regulations before 1991 did not free India from having to devalue its currency twice to prevent balance of payments crises, and regulations since then have not stopped it from having periodic booms and crashes in the stock markets. In fact, this statement can be generalised. No country has found the magic wand that, once waved, will bring into existence just the right balance between economic growth and stability. It is easy to devise a regulation that would have, in retrospect, prevented the last crisis. But no one has found a political, economic, administrative and legal system that is good at identifying and implementing these regulations ahead of time. When these constraints are considered, it is not clear that the free market prescription does all that badly.

Indeed, there are many lessons to be learnt from the current global economic crisis. Unfortunately, there are an equally large number of incorrect lessons that should not be learnt, and it is not an easy task to distinguish between the two kinds. We must be wary of claims that the crisis could

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Photo: Matthew Logelin

PUBLIC POLICY

Let us keep our Republic*The debate over moral vigilantism should focus on the rule-of-law*

ROHIT PRADHAN & HARSH GUPTA

BEFORE SHE was selected by John McCain as his running mate in the 2008 US presidential elections, Sarah Palin was a little known governor of a distant American state. Venerated and despised in equal measure—depending upon your culturo-political affiliation—Mrs Palin was an old style cultural warrior. Proof that even in a stable, modern democracy like the United States, cultural differences persist. For example, almost forty years after *Roe vs Wade* was decided, abortion still remains a hot button issue.

In a multi-ethnic and multi-religious country like India, the edges are more sharply drawn. Is there an Indian culture? Does it define our nationhood or is it a concept solely meant to preserve traditional hierarchies and power structure?

Amorphous as the concept may be, and despite the virtually insurmountable definitional challenges, cultural identities matter and are increasingly more meaningful to people. Human societies, even if organised around nation states, don't exist in a vacuum. There has to be a reference point and that are usually markers of cultural identities: ethnic groups, language and religion.

Therein lie the seeds of conflict. Or, as Samuel

Huntington has argued, "We know who we are only when we know who we are not and often only when we know whom we are against." Essentially, most people are against something rather than in favour of anything.

The controversy in Mangalore—where a band of self-appointed culture warriors attacked female pub-goers—that currently rages on in opinion columns, television stations and cyberspace is merely an extension of what has happened elsewhere: from the streets of Srinagar to the backlanes of Mumbai, a city whose changed name itself reflects cultural revisionism. And that debate can be placed at multiple levels.

At the simplest, it is easy enough to see the Mangalore incident as a conflict between two visions: an atavistic philosophy with regressive attitude towards women's place in society, countered by a more libertine vision, which, at least superficially, draws on notions of freedom and individual liberty.

On the other hand, in places like Mumbai, it has played out on a more ethnic-cultural platform. Whatever may be its idiom, the roots can be traced back to a rapidly changing Indian society searching for its inflexion point.

The hackneyed response from left-liberal sections to such cultural conflicts is to either dismiss the role of culture entirely or engage in doctrinal wars over its contours—for instance, by citing the odes to Soma in classical Indian texts to counter the Sri Ram Sene's angst against alcohol. But this is an endless debate where no amount of evidence will ever convince the other side.

Other commentators, most noticeably Pratap Bhanu Mehta, have advocated open conversations on “what new social values signify and how they can be properly embedded in society without repression and conflict.” From the perspective of social advancement, these conversations may be important but they are less useful in resolving cultural conflicts. For the notion of individual freedom militates against conversations originating from within existing societal norms. Understanding the angst against freedom or against “culturally inappropriate behaviour” does not automatically translate into an ability to address them. Reconciliation between such diametrically

liberal democracy—popular democracy restrained by its faith in constitutional processes and rule of law.

In other words, democracy seems to be the best way of operating the republic. But the idea of democracy becomes counter-productive when it is used against republicanism itself. If a republic is against the rule of men, and it represents the actualisation of an implicit social contract—an understanding that men have certain inalienable rights—that not all majority decisions carry legitimacy.

So debates on whether visiting pubs enjoy social sanction or is consistent with Indian culture become redundant. The role of the state is not to act as moral arbiter on appropriateness of adult behaviour or adjudicate cultural disputes but to use its power to preserve the rights it explicitly guarantees to its citizens. And in a democratic republic, the rights are protected through rule of law. The Indian state is morally bound to secure those rights for its citizens when they are threatened by non-state actors—whether terrorists or vigilante groups. That is what civil society should demand. The anti-Sri Ram Sene groups would have served a much higher purpose if they had directed their ire at the government rather than individuals or specific political parties.

Unfortunately, despite our constitutional proclamations, the Indian republic is moving away from one that does not believe in prosecuting someone unless there has been harm to someone else's life, liberty or property, to a partially constrained semi-majoritarian democracy. It is hard for Indian governments to criticise Sri Ram Sene's moral policing when they have happily indulged in the same—from banning books to banishing artists. In principle, how is vigilantism of fringe groups different from the state's reluctance to de-criminalise certain acts of private, consensual sex between two adult individuals?

Constitutional weaknesses show over time. Today's Britain can be understood as a benevolent totalitarian state, whereas the United States, despite all its weaknesses, can justifiably claim to have lived up to Benjamin Franklin's challenge in response to an American's question regarding what kind of government did their Constitution beget: “A Republic, if you can keep it.”

Let us keep our Republic.

The Indian republic is moving away from one that does not believe in prosecuting someone unless there has been harm to someone else's life, liberty or property, to a partially constrained semi-majoritarian democracy.

opposed views is virtually impossible or, even if achieved, would be momentary at best.

If not in social discourse, where does the solution lie? For that the debate needs to be framed properly. What is addressable is not the Sri Ram Sene's views—in a democracy, everyone is entitled to their opinions, howsoever archaic they may be—but its recourse to violence. And indulging in hooliganism is the rule rather than exception for such groups.

Therein lies the role of the state. The Indian constitution says that amongst other things India is a “democratic republic.” A republic believes in the rule of law, and not the rule of men—the republican philosophy is against the rule of dictators or kings, but also against the rule of ephemeral majorities. A democracy too is against tyrants, but it, by definition, supports the rule of the majority.

Now, majority decision-making is unambiguously correct when we elect our leader; use force to protect life and property; or quell communal secession. Essentially, it represents the idea of a

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On transforming Pakistan

On Sufism, failing states and soft power

Last month's special issue on Pakistan (*Pragati*, No 23 | Feb 2009) was extremely timely, and provides a lot of food for thought. I must commend, especially, Sushant K Singh's piece on the role of a strong and reliable military in diplomatic moves which complemented the extract from C Raja Mohan's book splendidly.

Nevertheless there were certain places that could bear a bit of thought.

The first of these were the loose use of terms "Wahhabi" and "Sufi", carelessly thrown about and presented as polar opposites of each other. The term "Wahhabi" has a venerable history in South Asia, and was first used as a derogatory term by British administrators pre-1857. After the 1857 uprising, it was liberally sprinkled in polemics with titles such as "Does Their Religion Compel the Mohammedans to Rebel?" "Sufi Islam" was encouraged, and later, when modernist *ulema*, especially Deobandi clerics, joined the Gandhian movement, the Bareilvis were championed. It is not for reasons of morality so much as *realpolitik*, that should make us pause to examine policies that not only failed, but are, to some degree, responsible for strengthening the militant movements that we face. And this ignores much, including, but not just the fact that Deobandi tradition, at its root, has the *pir-murid* (preceptor-student) relationship inherent in Sufism; the first religious rebellion against Mustafa Kemal in Turkey was led by a Naqshbandi Sufi, Sheikh Saeed; and the Sufi *jamaats* have been the basis of the Chechen insurgent network.

Secondly, a reader gets the feeling that the Pakistani state has largely failed. It should be remembered that the Iraqi state, before the current invasion, was also pretty badly off, but not as fantastically chaotic as after its weak administration was destroyed. The idea of rebuilding the Pakistan state is predicated on its dismantling, and during the dismantling a lot worse can happen, and India is unlikely to be able to seal it off. Linked to this is the fact that India, as a success, has a lot of 'soft power' that we underestimate. Pakistan's first Five-Year Plans were based on Indian models; imagine if it could build a liberal democratic order by copying ours. But for that our model has to be successful. The success (or lack

of) of India internally, reinforces our position with our neighbours.

Thirdly, there is no real discussion of India's maritime relations, and how these deal with Pakistan. Pushing north through our land borders will be difficult as Pakistan and China will both resist, but we have owned the seas before, and as we move to do so again, Pakistan will fall within the web of relationships that we create with the states around it.

Omais Ahmad
New Delhi

Pakistan and Japan are not comparable

Pakistan today is not really Japan in 1945. The Japanese emperor renounced his divinity and the country acknowledged defeat after a long and costly war. I don't think anything comparable to the emperor's action is possible in Pakistan and at present it is hard to see the country submitting to outside judgement. Foreign intervention in Pakistan would risk a nuclear war.

Still, Pakistan faces difficult choices. The basic questions are whether nuclear weapons really guarantee future independence and whether religion is a viable basis for national unity. If the answer to either question is negative, then Pakistan will need an alternative to existence as a traditional nation-state. Its neighbours will also need to worry about what a desperate Pakistan could do.

India began as a non-aligned secular democracy. It is still a unique challenge to nations that derive their identity from religion or ethnicity or great power ambition. But if India succumbs to one or more of these kinds of identity itself, it will give its neighbours less incentive to consider joining a regional or world system later in this century that has India as its centre. In embracing European state structures and the classic behaviours they encouraged, India and its neighbours could repeat the events that destroyed Europe between 1914 and 1945. The challenge to Indian policy is to find a future for everyone that can avoid this prospect.

David Billington
on *Winds of Change* (windsofchange.net)

Essential readings of the month

RAVI GOPALAN & VIJAY VIKRAM

► Dr Reddy's remedies

ARVIND PANAGARIYA, professor of economics at Columbia University calls attention to the fact that India is one of the few countries that have emerged relatively unscathed from the financial crisis that has swept the world since the collapse of leading financial firms in 2008.

In an essay in *Foreign Policy* (India's Financial Secret Weapon), he credits this situation to Y Venugopal Reddy, the former RBI Governor who is said to have resisted government pressure to deregulate banks and hastily open India to external capital account transactions. He concludes on a positive note forecasting that India would attain growth rates of 8-9 % in the coming decade and it would be unwise to overlook financial market regulation.

► Keeping the spark in the relationship

ALYSSA AYRES, director for India and South Asia at McLarty Associates, ASHLEY TELLIS, senior associate at the Carnegie Endowment for International Peace and others of the Asia Society Task Force call for the Obama administration to demonstrate strong leadership to ensure that the US relationship with India reaches its potential for global impact.

In an Asia Society Task Force report (Delivering on the promise: Advancing U.S. relations with India), they advocate setting up of realistic goals to be shared by both US and India across two parallel tracks, one between governments and the other between the pri-

ivate sectors. To strengthen government ties, it backs securing India's leadership in multi-lateral institutions, enhanced economic & security co-operation and non-proliferation. For the public-private partnership track, it espouses setting up realistic goals for enhanced collaboration on climate change, agriculture, education, and health.

► White but not transparent

In an article (China's Defence White Paper 2008—An Indian Perspective) for South Asia Analysis Group, BHASKAR ROY compares and contrasts the white papers of 1988 and 2008. He focuses on the gradual change in posture from Deng Xiaoping's "Hide your strength and bide your time" to Hu Jintao's "Peaceful rise of China" (pruned from the original "Rise of China" doctrine which rang alarm bells all over South East Asia). The doctrine has graduated to "active or forward defence" from an original focus on peaceful environment to focus on economic construction.

He avers that basic mechanisation of special units would be achieved by 2010 and there would be considerable informationisation in the PLA by 2020 and this would have implications for a number of hot-spots including the Sino-Indian boundary.

He predicts greater Chinese naval activity in the Indian Ocean with Gwadar as a base and a possible berthing facility in Myanmar. He criticises lack of transparency on China's nuclear doctrine

citing a 2008 study by the China Institute of International and Strategic Studies (CISS), which favoured a larger nuclear arsenal based on the concept of Mutually Assured Destruction (MAD) rather than that of No First Use (NFU). He also calls attention to the lack of information on cyber and space warfare capabilities, concluding that China is fast becoming a major destabilizing factor in Asia.

Over in Japan, editorial in *Asahi Shimbun* welcomes the clear indication in the white paper the support for the entry into force of the Comprehensive Test Ban Treaty (CTBT) in force and asks China to put pressure on Pakistan, Iran and North Korea to approve the treaty. It also calls attention to the failure to improve transparency of China's defence spending to a level that satisfies the international community although there were some efforts to clarify the objectives behind nuclear strategy and naval deployments. It also criticises the report's failure to provide information about China's reported plans on construction of aircraft carriers and ballistic missile-equipped nuclear submarines. It calls for Tokyo to work with Washington to urge Beijing to raise transparency in its defence policy.

► Next steps into Kazakhstan

ZAKIR HUSSAIN of New Delhi's Institute for Defence Studies & Analyses (IDSA) explains New Delhi's interest in Kazakhstan by citing three

reasons - its strategic location, its vast energy and mineral resources and its secular social structure.

He argues that Kazakhstan has immense potential in bolstering India's energy security as it is home to the world's second-largest reserve of uranium deposits.

Apart from energy security, there appears to be a great scope for fostering strategic bilateral cooperation. Despite being the host to the famous Baikonur Cosmodrome, Kazakhstan has been unable to gain technological autonomy from Russia in space initiatives. It is possible that is likely that India can help accelerate Kazakhstan's space programme.

Hussein argues that Kazakhstan is well-placed to carve out a niche for itself in the Indian defence market by aiding in the modernisation of the Indian Navy's ageing Soviet-era torpedoes.

► More cashdrops from choppers

US SENATOR JOHN KERRY released a report by The Atlantic Council that calls for an additional \$4.5 billion dollars of immediate financial aid for Pakistan to avert an economic meltdown. It argues that if the US does not provide these funds, "the country may be placed on a downward trajectory whose consequences will be dire."

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Photo: Charles Roffey



TRADE POLICY

Trading across the Bay of Bengal

The India-ASEAN FTA is a positive step towards substantive engagement

MUKUL G ASHER & AMITENDU PALIT

INDIA's LOOK East Policy (LEP) initiated in 1992 is set to enter a new phase with the signing of the India-ASEAN Free Trade Agreement (FTA). The FTA—more correctly the Preferential Trade Agreement (PTA)—is expected to be formalised at the next India-ASEAN summit. The formalisation, which was expected in December 2008, has been delayed due to political developments within ASEAN, particularly in Thailand, which is hosting the summit.

The indications are that notwithstanding the ongoing global economic crisis, the agreement will be signed towards end of April 2009, after the ASEAN summit involving the dialogue partners. The agreement is a milestone in India's and ASEAN's efforts to construct a Regional Trade and Investment Area (RTIA). The RTIA aims to create a framework enabling an integrated market for goods, services and capital flows between India and ASEAN.

India's economic engagement with South-East Asia has expanded rapidly since the early 1990s. Merchandise trade between India and ASEAN has grown from US\$2.3 billion in 1991-92 to US\$38.4 billion in 2007-08. Bilateral trade has become in-

creasingly diversified in terms of commodity composition. Moreover, an increasing proportion of the trade is taking place directly between India and individual ASEAN members, thereby lessening Singapore's transshipment role. The direct linkages are essential to expand the volume of trade, and to reduce information and perception gaps between India and the individual ASEAN members.

Acceleration in India-ASEAN trade coincided with the onset of a robust period of expansion for the global as well as the Indian economy. Bilateral trade with ASEAN currently constitutes 9.4 per cent of India's total. India is keen on increasing this share, apart from addressing its large merchandise trade deficit with ASEAN, which stood at US\$6.9 billion in 2007. While information on services trade balance is not available on a disaggregated basis, this balance is also likely to be positive for ASEAN, primarily due to its greater competitiveness and external orientation in tourism, transport and financial sectors.

The negotiated PTA involves only trade in goods. Details of the extent of tariff reductions on different products, negative lists, rules of origin

and other aspects of the PTA are not yet in public domain. It is encouraging that both sides have successfully overcome contentious issues faced during negotiations.

ASEAN is an important source of energy, food, forest and other resources for India. India can achieve significant economies of scale and scope by securing larger share of ASEAN's markets for intermediate inputs and capital goods. There is also considerable scope for further improving connectivity and density of relations with Indonesia and Vietnam, two of India's major trade partners in ASEAN.

India has strong commercial and strategic synergies particularly with Indonesia. Apart from being two of the world's most populous democracies, India shares a long maritime boundary with Indonesia. The two countries can collaborate effectively in securing sea lanes through the Indian Ocean. Both countries may also take the lead in encouraging moderate Islam where both India

members.

The impact of the PTA will depend on two critical factors. The first concerns the details of the agreement. Since the full details of the PTA are not yet in the public domain, more nuanced and rigorous estimates of the gains and losses to different sectors and regions in India and in ASEAN remain to be investigated.

Second, satisfaction over the signing of the agreement should not divert attention from the issue of implementation integrity. Effective implementation with low transaction costs is essential for a successful PTA. It is pertinent to note the experience of the ASEAN Free Trade Agreement (AFTA) in this regard. After many years, AFTA accounts for only 5 percent of total intra-ASEAN trade. AFTA has been criticised on account of its inability to minimise transaction costs for businesses; and to provide high degree of reliability in obtaining agreed upon benefits. Unsurprisingly many ASEAN based businesses do not find it worthwhile to utilise AFTA provisions.

The AFTA example shows that both India and ASEAN need to ensure implementation integrity, and low transaction costs and greater degree of certainty in availing prescribed benefits. This will involve specific steps by both sides. India should make efforts for strengthening its trade-monitoring mechanisms with the objective of detecting incorrect invoices. This requires sharper vigilance on part of customs authorities. India should also attempt to increase trade surveillance and broaden commercial intelligence systems with respect to ASEAN as an entity as well as with individual ASEAN members.

The trade documentation and reporting procedures followed by key ASEAN economies must be understood clearly by Indian authorities. At the same time, India should continue to enhance the monitoring and strategic functions of its Electronic Data Interchange (EDI) and build requisite human resources for obtaining best results. It should also continue to strengthen its efforts to change the mindset of customs officials to that of being service providers, whose actions can have significant implications for the Indian economy and for India's smoother integration with the world economy.

Indeed, these initiatives should be looked at strategically rather than in an isolated manner. With India planning to create a common domestic market for goods and services by replacing the state Value Added Tax (VAT) with a comprehensive Goods and Services Tax (GST) by early next decade, these steps will help in assisting its im-

India should increase trade surveillance and broaden commercial intelligence systems with respect to ASEAN as an entity as well as with individual ASEAN members.

and ASEAN have strong stakes.

At present, ASEAN accounts for a tenth of Indian exports and 9.5 percent of its imports. The PTA can be helpful in increasing these shares, if implemented in the correct spirit, and if both sides follow growth and economic efficiency enhancing domestic policies.

There is potential for greater benefits to flow from greater cross-border investments in the region. Larger investments by Indian companies in ASEAN and by domestic and multinational companies (MNCs) based in ASEAN as well as by Sovereign Wealth Funds (SWFs) of Singapore, Vietnam and other ASEAN members in India, could substantially deepen market-based integration.

India and ASEAN's GDPs at market exchange rates are roughly similar. The combined GDP in 2007 was US\$2.4 trillion, out of which India's GDP was US\$1.1 trillion. ASEAN's per capita income at US\$2,277 is; however, more than double that of India's (US\$1,025). This, along with ASEAN's rich agricultural and other resource base suggests that India has an opportunity to utilise this difference for more strategic and intensive exploration of commercial opportunities with individual ASEAN

plementation. The India-ASEAN PTA should also be operationally consistent with India's bilateral agreements that are already in force with Thailand and Singapore.

Though the PTA has been negotiated, its implementation can begin only after the agreement is ratified by legislatures of some ASEAN members. Further delays in ratifications may create operational difficulties for India. India needs to implement tariff reductions in a phased manner. The tariff reduction schedule was drawn up on the assumption that the PTA will get formalised during the ASEAN Summit in December 2008. But end April 2009 time frame envisaged currently gives India considerably less time between two phases of tariff cuts. This in turn entails challenges in managing domestic sensitivities, particularly when greater ASEAN imports in key sectors such as edible oils and plantation commodities are involved.

Furthermore, general elections are expected to be held in India during April-May 2009. Loss of time in signing the FTA may prevent the Indian cabinet from approving contents of the agreement with the electoral code of conduct becoming operational.

A late start to the PTA is also disappointing for India as it further delays future negotiations for broadening of economic cooperation. The goods PTA will produce relatively higher gains at the margin for ASEAN. India has relatively higher tariffs than ASEAN. The magnitude of reductions undertaken will be more for India thereby making relative market access gains greater for ASEAN. India looks forward to obtaining greater market access commitments from ASEAN in commercial services; and an easier access for its skilled professionals in ASEAN countries.

The above delays are manageable provided positive signals emanate from ASEAN on engagement with India. In this regard, the PTA certainly represents ASEAN's recognition that deeper engagement with India can lend more resilience to its economies. The current global economic scenario is the severest for several decades. As ASEAN countries are relatively more dependent on the external sector for trade, finance, technology, investments, and manpower than India, there is natural complementarity between the two. This, however, requires that both sides avoid excessive economic nationalism.

While the PTA is broad and aggregative, considerable opportunities exist for greater sub-regional cooperation between India and ASEAN. India's Northeast shares a long and contiguous border with Myanmar. This geographical proxim-

ity provides an excellent opportunity to both for accessing each other's land resources. India and ASEAN also enjoy extensive resource and demographic complementarities.

India is increasingly treating economic and strategic relations as integral components of its international relations. It is attempting to inject greater economic substance, including energy, defence, space, safety of sea-lanes and other sectors with individual ASEAN members. At the same time, India expects ASEAN members to not impinge on its core interests or weaken it strategically.

ASEAN's unambiguous endorsement of the importance of East Asian Summit (EAS), comprising ASEAN, Japan, India, China, South Korea, Australia and New Zealand as the primary forum for projecting and advancing Asia's interests in global affairs would be much welcomed by the Indian policy-makers and businesses. It will send a positive signal which would augur well for further strengthening of India-ASEAN engagement.

The global economic crisis offers both India and ASEAN an opportunity for co-operating and collaborating on shared concerns. Both wish to ensure that the economic crisis does not regress into social and political crisis. Both would like the international financial architecture reforms to reflect Asia's increasing significance in world affairs. Both are eager not only for greater representation in global councils, but also for developing capacities for contributing constructively and meaningfully to management of global affairs.

The ASEAN must collectively ensure that internal political developments should not emerge as insurmountable hurdles for the PTA. Indeed, notwithstanding the economic crisis, both sides should commence services and investment co-operation negotiations.

The PTA signals a significant move towards greater Asian economic integration. As both sides begin implementing the PTA and engage in further negotiations to broaden economic cooperation, reduction in information, perception and communication gaps can be expected to follow. A successful partnership between the two sides will enhance the regional and global leverage of each side. It is therefore important that both sides proceed with this initiative with a positive and a constructive mindset, respecting the each others' core interests.

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INDIA-ISRAEL RELATIONS

Farming a relationship*India's rural development agenda and the opportunity for Israel*

MARTIN SHERMAN

I shall now take up our main challenge: agriculture. I may recall the words of Jawaharlal Nehru, who said "Everything else can wait, but not agriculture." Finance Minister P Chidambaram in his 2007 budget speech.

MR CHIDAMBARAM'S words articulate an awareness of a reality and need that create an enormous opportunity for expanding and deepening Indo-Israeli cooperation and a potential for huge benefits for both countries that extend far beyond the realm of short-term commercial benefits. Indeed, if judiciously developed, this could well blossom into a partnership of strategic dimensions.

If addressed with a prudent mix of resolve and intelligence, of political will and intellectual force, the development of India's rural sector could be one of the most momentous undertakings of this century—with unprecedented spin-offs for those involved with it.

Devising ways to increase the income of small farmers and providing them with alternative or additional sources of livelihood is essential to facilitate the orderly transformation of Indian agriculture to more modern and viable configurations. The quest to bring about this transformation can—and in all likelihood will—open up vast new areas for collaboration between India and Israel, in areas in which Israeli expertise and experience can be of special pertinence and value.

Israel has emerged into one of the world's leaders in agro-technology with expertise in a number of areas including

- aquiculture (including advanced hatchery techniques for fingerling production),
- dairy farming (where the yield of Israeli cows far outstrip that of the rest of the world)
- horticulture and floriculture, including greenhouse & hothouse technology
- fruit growing
- irrigation techniques and water management

There seems to be a growing awareness in India of the potential contribution Israel can make towards India's agriculture sector. This is reflected in the fact that India has consistently sent the largest

delegation to the triennial Agritech exhibition, considered to be one of the largest agro-technology exhibitions in the world.

However, while agriculture is clearly the essential point of departure for any initiative aimed at the improving the socio-economic conditions of the rural sector, efforts cannot be limited to merely improving yields and upgrading techniques of cultivation.

If the benefits of more efficient and productive agriculture are to translate into sustainable enhancement of the lives of the residents of rural India, an integrative systemic approach that addresses both pre- and post-harvest activities is essential. This will entail developing the means for marketing the increased agricultural output and the logistic systems to transport it from the farmer's field to the consumer's kitchen, via appropriate storage, refrigeration and packaging facilities.

It will also require development of various processing industries to make the produce more durable and the means of consuming them more diverse. The Indian retail sector is undergoing a rapid revolution, with supermarket chains establishing themselves throughout the country and vying for the Indian household's budget. This too will have a far-reaching impact on Indian agriculture, creating serious challenges for existing agricultural structures. It will open up opportunities to apply more advanced techniques of control—such as computerised systems of the kind developed and operated in Israel—to address the more stringent requirements of quality, reliability of supply and consistency of produce.

All of this will put increasing demands on the rural infrastructure systems—such as roads, rail and communication systems—which will have to be upgraded to adequately accommodate the changing needs of the rural sector. Another area of crucial importance, and one in which Israeli companies could make considerable contribution, is that of water management—again across a wide range of activities, from irrigation to conveyance and conservation, to sewage recycling and the

exploitation of marginal waters.

In addition, despite some criticism that it is reducing the availability, and increasing the cost, of food, the bio-fuel industry—including the cultivation of crops for raw material and establishment of fuel production plants—is likely to become a growing part of India's rural sector in the coming decades. For example, in some areas of India, ethanol production is being proposed as a way to facilitate the shift from rice cultivation to maize. This will prevent depletion of groundwater and reduce the energy used for irrigation.

Israel is also a leader in related pre-and post-harvest industries. On the pre-harvest side, these include the production of agricultural inputs (such as fertilisers and irrigation equipment), and provision of expertise in fields such as soil conservation and water management. In terms of post-harvest operations Israel has developed impressive capabilities in fields such as agricultural logistics, storage, packaging, development of rural infrastructure, rural medical services, and branding and marketing of agricultural produce (for both domestic and export markets).

Creating non-agricultural income sources

However, rural development cannot hinge on the enhancement of agriculture and its derivative activities alone. As a general trend, as levels of agricultural productivity rise, levels of agricultural employment fall—increasing the potential for social unrest and increase in urban migration into India's already overcrowded cities.

Here again Israel's experience could be instructive. It has considerable experience in weathering severe crises in the agricultural sector, and has achieved impressive success in devising innovative societal organisations to enhance the lives of the rural population and in generating additional non-agricultural sources of income—such as rural tourism, outdoor recreational activities, and boutique/cottage industries. All of these competencies would be of great practical value in helping rural India restructure for the coming decades, generating potentially lucrative commercial opportunities for both countries.

Another sphere which dovetails well with both the desire to upgrade the quality of life in rural areas and provide non-farm sources of employment is that of rural medicine, particularly the establishment and expansion of rural clinics. Development in this area would not only provide valuable services to the rural communities and offer additional prospects for employment and training for the local residents; but it would also open up opportunities for international firms to

equip and supply such clinics. For instance, in a recent article in the *Indian Journal of Medical Ethics*, Bashir Mamdani reveals how opportunities for Israeli firms may arise in unexpected avenues. Among others the article suggests that enhanced monitoring equipment in clinics could dramatically improve the work attendance of medical staff in rural areas—as it did in case of school-teachers.

Just how opportunities may emerge in areas not usually associated with rural development is highlighted by Meghnad Desai who has suggested that the Indian government should adopt the use of biometric “smart cards” to transfer government payments to the half-a-billion rural poor rather than by the current post office system. Among other things, this could reduce skimming of funds by officials as they move down the distribution chain. Both ICICI Bank and Citibank are reportedly exploring this possibility, has been endorsed by the Indian government. This example illustrates how advances in seemingly unrelated

Israel has achieved impressive success in devising innovative societal organisations to enhance the lives of the rural population and in generating additional non-agricultural sources of income.

fields can be integrated into the development scheme for India's rural sector. This is certainly true of fields like telecommunications and finance where innovative solutions to meet the demands of changing realities can present Israeli businesses with new opportunities.

A roadmap

There is little dissent among policy pundits in India that the country's rural sector will have to undergo a far-reaching structural metamorphosis. It is also clear that Israel has the potential to make a significant contribution towards such strategic restructuring, and this avenue should be purposefully explored by both countries. However, it must be borne in mind that the success of such a bilateral endeavour will, in many respects, be crucially dependent on the composition of the participating teams.

To achieve tangible impact and enhance the likelihood of it being incorporated into practical policy, the members of these teams will need to be

Photo: Delayed Gratification



of sufficient prestige and prominence to allow them access to, and influence on, senior policy makers in both New Delhi and Jerusalem. Without a judicious choice of participant experts, who have necessary stature, resolve and commitment to push for the practical implementation of their recommendations, the entire endeavour, however auspicious, astute and appropriate, is likely to remain yet another academic exercise.

Bearing this in mind, the following staged proposal could constitute a plausible program for a collaborative bilateral strategic initiative.

Formulating visions for rural India

The initial stage of the joint programme should comprise bilateral consultations between Indian and Israeli teams of experts aimed at arriving at an agreed vision for the optimal future structure(s) of rural India. Such a debate would presumably involve the assessing of possible socio-economic alternatives and their suitability for implementation on a national or regional scale. Conceivable structural alternatives to replace the current untenable rural configuration composed dominantly of smallholdings, which are often fragmented and of insufficient—and diminishing—size, might include:

- Large corporate agro-business owned by stock holders and operated by a salaried workforce and/or hired subcontractors
- Regional co-operatives owned collectively by farmers and operated mainly by the pooled resources of the owners and under their direction.
- Enhanced Smallholdings based on advanced intensive production techniques for superior yields from small production units.

Such models exist in Israel: Several such regional enterprises operate successfully in various fields of agricultural activity from the preparation of high-grade feedstuff and fodder for livestock and

poultry, the extensive cultivation and harvesting of grain and fibre crops, as well as the processing, storage and marketing of various types of produce.

Moshav communities (semi co-operative villages comprising individual smallholders engaging in largely independent farming activities) could, with appropriate adjustments and modifications for local conditions, perhaps provide a useful “template” for restructuring the Indian smallholding sector. The use of advanced methods of greenhouse technology, irrigation, genetics have allowed numerous *moshav* farmers to attain unprecedented levels of performance in areas such horticulture, floriculture and dairy farming – with yields per hectare (or cow) far beyond that achieved by traditional agricultural practices.

Clearly, whether a single one of these configurations, or a judicious combination of them would be judged suitable, would depend strongly on prevailing conditions in specific regions being considered for implementation. This leads to the next stage.

Parameters of the transformation process

One of the main objectives of the second stage would be to focus on planning the socio-economic, legal and political “infrastructure” needed to facilitate, and to induce, the planned metamorphosis of existing rural structures, systems and practices into those envisioned. Israel’s experience in propelling its agricultural sector to the forefront of development may well be instructive in this regard. For example, Israeli law prohibits the subdivision of smallholdings through inheritance and the farm unit can only be passed on to one heir. How this thorny social issue is handled may be of value in devising some form of rural land reform in India. Likewise in addressing and preparing for the social and cultural impact of, and obstacles to, the introduction of advanced technology, much could be gained from studying similar developments that took place in Israel. India could also learn about stringent quality control and of adapting to the inevitable necessity of non-farm employment from Israel’s experiences.

Implementing the transformation

The third stage would comprise identifying the areas of activities to implement the prescribed restructuring of rural India. These activities would embrace a wide arc, including

- Pre-harvest preparations and inputs
- Production/cultivation techniques and practices

- Post-harvest operations such as packaging, marketing, processing
- Infrastructure—particularly transport and communications systems to facilitate greater accessibility to markets, customers and suppliers.
- Logistics such as appropriate packing-house facilities, storage and conveyance of produce, as well as required refrigeration facilities
- Development of sources of non farm incomes and employment possibilities in such areas as rural medicine, tourism, recreation, cottage industries and so on
- Creating appropriate financial infrastructures to facilitate the planned transformation and sustain it once achieved.

Clearly the conceptualising of the measures stipulated in this stage and of those in the previous one are not detached from each other. Indeed, it may be likely that often the recommended measures in this stage require prescribing some of the measures in previous one—such as legal changes required to create larger production units to accommodate enhanced cultivation techniques. Thus the order of sequencing of the stages here need not necessarily correspond to their required temporal sequencing in practice.

Identifying relevant Israeli competencies

The major focus of this stage would be to identify the Israeli corporations and organisations—in both the private and government sectors—with the relevant know-how and competencies to meet Indian needs, and to offer best practice proposals based on proven Israeli expertise and its adaptation to prevailing conditions in India.

In contrast to the generally “top-down” strategic approach adopted in the design of the initiative up to now, this stage can also incorporate a “bottom-up” tactical component. This could take the form of a more immediate problem-solving effort which in collaboration with Indian counterparts will be devoted to identifying issues of particular urgency in specific areas, and to explore ways to apply Israeli expertise and experience in effecting sorely needed solutions on the ground.

Partnership frameworks

The final stage would be devoted to exploring optimal methods and frameworks for structuring joint bilateral operations that best utilise the potential of Indian-Israeli partnership. For example this would involve careful analysis of pertinent legal, organisational and financial parameters in the design of business models and benefits from research funds that ordinarily would be available

on only one of the partner countries. On the government-to-government level, consideration should be given to establishing bilateral R&D funds, perhaps modelled along the lines of the US-Israel Bilateral Agricultural Research and Development (BARD) fund, which has generated agro-operations worth hundreds of millions of dollars in both countries, yielding benefits far outstripping the initial government investment. Likewise, enhancing the funding of some of the existing bilateral funds that have been established in recent years may be seen in a more favourable light if they are incorporated into a systematic and integrated initiative such the one proposed here.

However, whatever configurations eventually emerge as the recommended formats for joint Indo-Israeli initiatives it is clear that one principle must dominate the rationale of their structuring and modus operandi. This is the recognition that its long-term success depends crucially on the benefits—whether commercial, political or strategic—that it creates for both participants over time.

A previous article in *Pragati* (“The India-Israel imperative”, No 16 | Jul 2008) had pointed to the remarkable compatibility between the aspirations of modern India and its leaders on the one hand, and the areas in which Israel has acquired exceptional expertise on the other. This is graphically reflected in the slogan “Jai Jawan, Jai Kisan, Jai Vigyan”.

In two of these areas, India and Israel already have a well-developed relationship: In the sphere of defence and security matters (reflected by the fact that Israel is India’s second largest supplier of military merchandise) and in the sphere of technology and science (symbolised by last January’s successful launch of an Israeli satellite by an Indian rocket).

There thus could be a no more opportune time than the present to turn the attention of both countries to the third element—the development of close collaborative ties devoted to advancement of agriculture and the enhancement of the lives and livelihoods of those engaged in it, and dependent on it across the subcontinent—and to impart to the call “Jai Kisan” the genuine significance it merits.

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TRADE POLICY

The Southern land of opportunities

A good time to deepen economic relationships in Latin America

UDAYAN TRIPATHI

Photo: Gustavo Buriola



THE US economy is envisioned to contract between 2 and 3 percent this year, Japan contracted at an annualised rate of 12.7 percent in the final quarter of last year and exports halved. China's growth rate is conservatively projected to fall by a third in 2009.

And in this set of circumstances, it is oddly the United States in the unusual position of the protectionist—the Recovery and Reinvestment Act passed last month includes the 'Buy American' clause, one which contravenes World Trade Organisation principles about free market practises, notably: buying from that state which sells the good cheapest. If the Buy American clause is enacted, it will likely result in the new-found American autarchic mindset causing systematic global economic collapse as trading partners sever ties and countries scramble to reallocate capital in which they have the comparative advantage to those in which they are grossly inefficient.

With that clearly not being the right course of action, one should remain wary of overexposure to particular economies. In the language of the stock market, a state should diversify its trading portfolio. For India, this means looking anew at Latin America. Indian IT companies have established software development centres, business- and knowledge process outsourcing operations in

the region, with eight thousand employees, as part of their new business model of providing twelve hours of service from Latin America (same time zone as the United States) and twelve hours from India. The Indian companies have also started picking up local business from Latin American companies: for instance, TCS won a US\$150 million contract from Ecuador's Banco Pichincha.

In 2006, *New York Times* columnist Thomas Friedman wrote about Tata's experience in Uruguay: "in today's world having an Indian company led by a Hungarian-Uruguayan servicing American banks with Montevidean engineers managed by Indian technologists who have learned to eat Uruguayan veggie is just the new normal." India's old barrier mindset concerning distances and language is long gone, and it began to erode as young women in Bangalore picked up phones ringing from New York. Taking that progression one step further is necessary; it is in India's interests to invest across the world.

But using Latin America to better serve the United States is only one small part of the potential benefits of Indian investment. Asia is increasing its share of Latin American trade. According to ECLAC (Economic Commission for Latin America and the Caribbean) Asia, led by China, will help offset some of the decline in export demand in the developed countries. Since 2001 more Latin American and Caribbean imports have originated in the Asia-Pacific region rather than in the European Union, and the share of Asia-Pacific imports is rising steadily. If the current trend continues, by 2010, as much as 30 percent of Latin American and Caribbean imports could come from the Asia-Pacific region.

Furthermore, the private sector in many Latin American countries has learnt lessons from past crises and is exercising more discipline. It has proven itself to be very well prepared for this crisis. While large western institutions like Lehman Brothers collapsed, no Latin American banks or companies have collapsed in this economic downturn. Firms have become substantially more insu-

lated from currency risk by building up foreign exchange reserves. Over the past ten years, many firms have lowered their exposure to a sudden devaluation by reducing the share of debt contracted in foreign currency. The average share of foreign-currency-denominated liabilities in Latin America dropped from 35 percent in 1998 to 17 percent in 2007.

What this demonstrates is that in Latin American companies Indian firms will find suitably responsible partners which are not only embedded in the local socio-economic culture but also have the business practises already in place. This reduces time and costs of starting-up. Reliance Petroleum has demonstrated how lucrative business can be, its sale of diesel oil accounts for nearly 40 percent of India's trade with Brazil. The scope of activity across the region grew 30 percent in 2008 with variations in patterns of trade. The largest proportion was \$3.6 billion with Brazil, then over \$1 billion with Mexico, \$478 million with Peru, \$428 million with Chile, \$418 million with Argentina and \$328 million with Colombia.

It is not just a case of an Indian opportunity; Latin American firms see a vast market for their goods in India. Vineyards like Chile's Casillero del Diablo see the burgeoning Indian middle class as a target audience for their products. Nearly 36 percent of Chile's exports going to Asia-Pacific region (the rest of the region's export percentages to the Asia-Pacific region being: Dominica, Cuba, Peru, and Costa Rica between 31-24 percent; and Brazil, the Bahamas, Argentina, Uruguay, and Bolivia between 18-12 percent). India's January-November 2008 imports from Chile were worth \$1.7 billion, eleven times that of imports from neighbouring Bangladesh. What currently stands at \$428 million in Indian exports to Chile will increase as Indian investment matures.

But this requires a sustained Indian commitment, one which is sorely lacking. In comparison to India's current \$11 billion trade with the region, China's began in 2000 at \$12.6 billion and today stands at \$126 billion. However, despite Latin American fascination with Chinese growth, regional economic actors relate themselves, their concerns and their situation more with India, which has shown by its example that growth and transformation is possible in a democratic system despite so many challenges arising from such a vast diversity and political spectrum.

Latin America can satisfy some of the growing Indian economy's needs. Indian imports of copper, soybean, oil, and light sweet crude will increase this year and next. With Latin America as a net exporter of fuels, metals and agricultural

products—specifically producing 44 percent of global soybean output and 13 percent of global maize output in 2006, the grain exports from the region to India will increase trade. Similarly, with high shares of global metals production (28 percent of zinc, 22 percent of aluminium, and 19 percent of copper), the region could export metals to India, sustaining demand for infrastructure projects.

Citing the stability of money and bond markets, high reserve levels, and flexible exchange rates, the International Monetary Fund maintains a strong economic outlook for the region. This indicates that the region is well prepared to handle the global slowdown despite the expected reduction in export volume, foreign direct investment, and remittances. Furthermore portfolio investment in the region will decline as will the availability of credit to regional firms. This provides an opportunity for Indian firms. As American and European firms contract to cover losses in western credit markets, they leave behind Latin

Between January-November 2008 India's imports from Chile were worth \$1.7 billion, eleven times that of imports from neighbouring Bangladesh.

America. Despite the reduction in foreign investment and reduced access to credit, Latin America is projected to remain solidly away from recession. The highest growth projected is 5 percent for Peru, followed by Panama at 4.5 percent and Uruguay 4 percent. The lowest growth predicted is 0.5 percent for Mexico. And the largest regional economies, Brazil and Argentina remain in the 2-2.5 percent bracket. Their growth has historically been combined with reduction in poverty, increase in employment and surplus of fiscal and external accounts in general. These trends are expected to continue despite the global slowdown.

The year ahead will be highly volatile. The best way to hedge against such instability is to plan for robust trading partnerships into the future. With the clear potential for bidirectionally lucrative ties between Latin America and India, it is clear that both the public and private sector in both should act in ways to foster their complementary economic strengths.

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TRADE INFRASTRUCTURE

To flatten the world

High logistics costs are a drain on India's competitiveness

PRASHANT KUMAR SINGH

A WORLD Bank report from 2007, titled "Connecting to Compete: Trade Logistics in the Global Economy" compared 150 countries and ranked India at 39th position in the logistics performance index, below Malaysia, Slovenia and the Czech Republic. Singapore was ranked first followed by some West European countries and the United States. The landlocked countries of Africa trailed in the list, with Afghanistan, landlocked and strife torn, ranked last. The report reinforces the truism that countries with a better trade logistics infrastructure, either due to historical reasons or due to a coherent development strategy, are economically advanced.

In today's globalised world, where supply chains compete and 'supply chaining' has been arguably one of the flatteners, it makes sense to view the processes holistically and through the right lens—the lens of trade logistics. To gain sustainable competitive advantage in trade, the elements of trade logistics need to work synergistically to ensure efficient flow of goods, funds and information. These elements together form the physical and virtual infrastructure of the country, which underpin connectivity.

Trade competitiveness of economically advanced countries stems from their ability to reduce logistics costs without compromising reliability and predictability, while at the same time reaping the benefits of specialisation. Conversely, the gains from a competitive advantage in manufacturing or agriculture can be fully negated by high logistics costs. Logistics costs in India are about 13 percent of GDP as against 9 percent in developed countries like the United States. Apart from providing a competitive advantage in international trade, presence of an efficient trade logistics infrastructure will lead to domestic savings in the range of 4 percent of GDP. Prior to the economic reforms in the 1990s, India's infrastructure was woefully inadequate and contributed to the lacklustre rate of growth. In the new millennium, it acts as a drag on the growth rate and will continue to remain so, if befuddled policy-making by the successive governments continues.

Myriad government departments and ministries, operating in their silos, claim ownership and frame policies for physical infrastructure comprising roads and highways, railways, airports, sea-ports, power, telecommunications, warehouses, customs, sales tax, border and state security. Infrastructure projects have been conceived, allocated and executed piecemeal by these agencies. Their geographical distribution and selection of the right infrastructure components have been skewed, mainly due to political considerations. It is commonplace in India for a minister to have a road or railway line terminate in his constituency, ignoring neighbouring industrial areas. Having several disjointed and uncoordinated projects, scattered randomly over the length and breadth of the country, completed after significant cost and time overruns, is no way to develop trade logistics infrastructure.

Even if the various elements of physical infrastructure are integrated, the swiftness of movement is heavily dependent on speedy clearance by various regulatory agencies. The paper-based system is slow and cannot keep pace with the expanding volumes of international and national trade. Therefore it is necessary to create a virtual infrastructure for implementation of an Electronic Trade Documentation System (ETDS), having a single point of transaction and linking multiple government bodies, private agencies and banks, throughout the trade process. Apart from reducing the cost and turnaround time of trade documentation, the seamless regulatory process—payment of port processing fees, customs fees, processing import and export permits, and issuing certificates of origin—will be transparent, simplified and predictable.

Infrastructure development has become part of public discourse and the government has increased spending on infrastructure as a fiscal measure to stimulate demand in the economy. As opposed to the earlier approach of the government being a mere provider of infrastructure, what is now needed is co-ordinated infrastructure development with seamless integration of ports,

roads, railways, public agencies—customs, border security, police—and private service providers with the virtual highway.

This approach demands a new transport ministry formed by merging the existing ministries of Railways, Surface Transport, Shipping and Aviation. The Planning Commission should be designated as the nodal entity that will co-ordinate with other central ministries, state governments and private bodies for these projects. It will also have to reinvent itself as a think-tank for interactive policy-making by moving beyond its traditional role of an arbiter of resource allocation and policy formulation on investment models for infrastructure projects.

Most infrastructure projects have a long gestation period. As an immediate measure, the critical gaps in the physical infrastructure—such as an under-construction sea port lacking rail connectivity to the hinterland and co-located customs facilities—have to be identified and plugged. Spearheaded by the Planning Commission, the newly created transport ministry, the Commerce and the IT ministries have to act in tandem for creation, ownership and subsequent maintenance of virtual infrastructure alongside the existing physical infrastructure.

The creation of physical and virtual infrastructure in border areas has a bearing on India's national security. Such a strategic development of Indian trade logistics infrastructure will also pose challenges regarding its own security; its vulner-

abilities will be exploited by hostile governments and other adversaries by terrorist acts and cyber warfare. An integrated approach that incorporates security during planning stages of infrastructure development is a *sine qua non* for winning the asymmetric, information-centric wars of the future.

This integrated approach—of planning, coordinating, creating and maintaining trade logistics infrastructure—will entail a root-and-branch reform and restructuring of various government ministries and agencies, including their work culture. The political will needed to undertake such an exercise is visibly lacking now. However, the government can still be pressed by various stakeholders—entrepreneurs, the business community, public policy experts, the media and most importantly, the average voter—to attain these goals, as the recent decisions on internal security have demonstrated.

Trade logistics infrastructure is the key that will unlock the trade flow to fully realise India's economic potential. India must build faster and stronger but above all, with a purpose. Otherwise, high logistics costs will deny connectivity to a flat world and India may realise to its peril that the world is not so flat after all.

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BANGLADESH

Engage with sincerity

The change in Dhaka is an opportunity India cannot afford to waste

SUPRIYO CHAUDHURI

WITH THE overwhelming victory of the coalition led by Sheikh Hasina's Awami League in Bangladesh, it seems that democracy and peace are finally making a comeback in the South Asian region.

This could only be good news for India. Gone are those days of cold war policy-making, when India played zero-sum games with our neighbours. The concept of sphere of influence lingers on, but appears dated in this age of global communication and terror. Earlier, it was important to

see 'favourable' governments in power in the region; now, the security lies in the culture of democracy and shared prosperity.

However, old thinking dies hard and there are far too many people in India who do not like the Nepalese government's closeness to China, or the fact that India has done nothing to protect Tamil Tigers.

So Awami League's victory in Bangladesh, seen in the prism of this thinking, is a good thing—this is a party supposedly friendly to India.

Photo: Ashiful Haque



Forever in debt

Such assumption of friendliness, of course, originates from history, because India extended its logistical and military support to Awami League-led liberation fighters and helped them defeat a genocidal Pakistani army. However, the post-liberation generation in Bangladesh, which grew up in the Eighties and the Nineties, have come to regard the Indian intervention in the liberation struggle as a helpful step, but one largely dictated by India's own geopolitical interest.

On the question of relationship between the two countries, a prominent Bangladeshi intellectual once told me that Bangladesh was no more indebted to India than the United States was to France, and yet it would have been a travesty to expect George Washington to become a vassal of Louis XVI, as India did expect of successive Bangladeshi governments.

Indeed, Indian policy towards Bangladesh over last three decades varied from treating it as a friendly but weak nation to taking it for granted. Also, in 2003, the Indian government made public its intentions to link its various river basins, without a detailed consultation with the government in Dhaka. Overall, it affirmed the common Bangladeshi perception of India as a Big Brother state.

Bangladeshis today marvel at India's economic achievement and want to imitate its IT industry, though the lack of respect and consideration from India is only too obvious to cancel out any feeling of admiration. Indian government, even in the recent years, has been extraordinarily inconsistent in its trade policies with Bangladesh. The best known example of this is Rahimafrooz, the largest automotive battery manufacturer in Bangladesh, who saw a high tariff being imposed on its batteries after it started making inroads in India, and the Indian manufacturers complained.

Hasina's mandate

While India has its share of responsibility in squandering the goodwill it earned through its engagement in liberation war, Bangladesh was indeed a difficult nation to do business with. Successive governments since the 1980s plundered the considerable wealth and natural resources of Bangladesh to the extent that by 2001, the country was ranked as the world's most corrupt state, beating Nigeria and a host of African nations in the game.

It is commonly agreed that the result of this election adequately reflects a consensus against corruption and political violence, though Sheikh Hasina is an old hand and presided over a coalition of existing parties. The results appear far more decipherable when the following arguments are considered:

First, Bangladesh has experimented and failed to evolve a third way, an alternative to the two major parties in the fray. Bangladeshis, after the two years of caretaker government, have realised that their democratic options would be limited, for some time now, to the two Begums.

Second, this victory is largely attributable to formation of effective coalition. Awami League has an extremely motivated following of roughly 35 to 40 percent of Bangladeshi electorate, and with the consolidation of anti-Bangladesh National Party votes through a broad-based coalition, they became unstoppable. However, it is prudent to note that this is a coalition victory more than it looks on surface (Awami League won a simple majority on its own) and Sheikh Hasina has to work with her partners if she has to create a sustainable government.

Third, an important factor in this year's election were the first time voters—young men and women millennials—who care less about liberation struggle and are far more concerned about the road ahead. Bangladesh is a country of young people and this new generation is going to dominate the political agenda from now on.

The all new opportunity

Therefore, it is reasonable to expect Sheikh Hasina's policies to be dominated by the dynamics of her mandate rather than any feeling of past affiliation. Such forward-looking perspective is going to be hard for even Sheikh Hasina to adopt—already a proactive pursuit of 1971 war criminals is overshadowing the government's development agenda—but the relationship with India must be seen in the light of this mandate. Indeed, this victory presents India with an opportu-

nity; it is much easier to pursue a common agenda with this administration than it would have been with a coalition involving the Jamaat.

Bangladesh, contrary to popular perception, is an extremely important state for India. It is resource rich and strategically located. Access to Bangladeshi natural gas will change the economy of West Bengal, and access to sea port in Chittagong and road transit rights through the country will transform the troubled economies of Indian North-East and integrate them far better to the mainland.

Moreover, Bangladesh is militarily important and strategically significant. India would not want a Chinese air base in Jessore, at any cost. Besides, Bangladesh has become the training ground for Pakistan's ISI and its terror brethren. Rural poverty, and disaffected, unemployed urban youth provided the ideal recruitment base; the corruption and lawlessness allowed covert operations to go on. After much effort, the government of Bangladesh has pushed back some of these groups in recent months, but economic success and political stability will now be required to make those gains permanent.

India must engage with Bangladesh with this perspective. Even if it is a familiar Sheikh Hasina India will have to deal with, it is time for fresh thinking. It will have to build a relationship based on respect that a sovereign nation rightfully deserves, and treat this country with due consideration befitting an important strategic partner. A

good start has been made with Foreign Minister Pranab Mukherjee's recent visit and two bilateral trade treaties in February 2009, which cover a number of issues including the transit arrangements. It is reported that there has been a broad agreement on action against terror groups operating out of Bangladesh.

However, to make such a treaty successful, India must give as it gets—more must be done to achieve a more balanced trade with Bangladesh (India has a surplus of \$3 billion out of a \$3.3 billion worth of exports); to enter into a permanent and equitable water sharing arrangement; sorting out the long-standing issues about land and maritime borders. Steps like these will allow Sheikh Hasina's government to convince the Bangladeshi people that India is serious about the relationship. This will allow her to address other key issues, like Indian companies investing in Bangladesh, and sale of gas to India—steps, which will actually help reduce Bangladesh's trade deficit with India—with greater confidence.

All this will demand a change of mindset in India. In the affairs of the subcontinent, New Delhi has thought and acted with fear and insecurity for too long. It is time India acts like a big country, and engages its neighbours with sincerity and fairness.

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CORPORATE GOVERNANCE

Keeping promoters on the leash

Lessons after the case of fraud at Satyam

R VAIDYANATHAN

IN THE wake of the massive fraud by the promoters of Satyam Computers, one of India's biggest IT firms, there has been a lively debate about the issues pertaining to corporate governance in the Indian context. The issues relate to accounting practices, role of auditors, the role of the Board (particularly that of independent directors), the role of bankers and regulatory bodies like SEBI. The critical issue in corporate governance which India has copied from the Western paradigm is that the regulatory framework should be in a po-

sition to prevent managers from abusing their power in running corporations.

This is achieved by strengthening the accounting framework: disclosure practices and auditing standards; and shareholder activism. The framework also aims to reduce information asymmetry and minimise insider trading. In other words, in the Western context, the aim of regulation is to prevent abuse of the corporate resources by managers who are expected to be agents acting on behalf of the share holders.

Publicly listed companies in the United States are manager-run, and shareholders can and do initiate class action suits for any misdemeanours committed by the managers. Shareholders, including institutional shareholders do not hesitate to replace existing CEOs and other top executives if they think that the company is not run as per their mandate. CEOs are on their toes in trying to meet the expectations of the shareholders. While they are paid astronomical sums they can be, and are, removed by shareholders for incompetence or malfeasance.

In India, the promoters are the management group in family-owned companies and a large segment of publicly listed companies are family owned. In the Indian context there is a need to focus on preventing abuse of authority by the promoters rather than by the managers. Promoters call the shots in the organisations even though some of them may not hold even a simple majority in terms of shareholding. It is not uncommon to see promoters holding 15 to 20 percent of the

separate chairman, most have the offices of chairman and managing director vested in the same person.

Community and regional affiliations also play a role in appointing independent directors. For instance in Satyam, it cannot be termed as purely fortuitous that all directors save one were from the same region or even the same community as Ramalinga Raju, the promoter. While nominally, these directors were independent as visualised in regulations, it cannot be said that they were really independent if the issue is independence from the promoter families. The families will be comfortable with 'independent' directors from their own regional or community group. The family may also prefer an ex-bureaucrat or an ex-judge to provide an aura of respectability to the board. Of course, if the ex-bureaucrat is from the same region or community all the better.

It will be appropriate to modify the governance regulations taking into account Indian realities. The promoter should be compelled to declare the nature of the impact of his actions on his other family-related businesses and certify to the board that it is as per laws and regulations. Today the promoter recuses himself from any agenda items pertaining to his interests and is absent from voting. It should be the other way round. On items before the board that involves the promoter and his family, he should certify and be present to vote. This will, to some extent, put the fear on the promoters since their actions are certified by them before other directors discuss it or look in to it.

Also it is required for institutions to play a more proactive role. For instance, but for the reaction of American Depositary Receipt (ADR) prices in the US market and the strong resentment of some of foreign institutions, the Satyam management and promoters would not have rescinded their dubious decision to transfer the perhaps non-existent cash from Satyam to Maytas, a company owned by Mr Raju's sons.

Corporate governance is a function of history, culture and extant social mores rather than rules and regulations in any society. In the Indian context, there is a need to stress *dharma*, or duties along with rights and regulations.

The promoter should be compelled to declare the nature of the impact of his actions on his other family related businesses and certify to the board that it is as per laws and regulations.

shareholding having complete control of the affairs of the company. This is possible since the remaining shares may be widely held by small investors, or the institutions who own even a significant chunk of the shares acquiesce to the decisions of the promoters.

Hence the need in the Indian context is to prevent corporate power from being abused by the promoters rather than by managers. Of course, India has also followed the system of 'independent directors' for listed companies as in the West, but the nature of independent directors is circumscribed by Indian tradition and history. Most of the independent directors are ex-bureaucrats or ex-bankers. Independent directorship is more a favour conferred for past favours rendered to the company or in expectation of future benefits. Unfortunately the basket of candidates is also not very large given that India has nearly 8000 listed companies. This means that rather than having a

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GEOECONOMICS

War is one way out of the crisis

A fiscal stimulus of the violent kind is best avoided

VANANTHA NAGESWARAN

SPEAKING AT a recent seminar, Marc Faber, an investment analyst who has been nicknamed “Dr Doom”, made two particularly interesting observations. One was on the synchronised and global nature of the asset price and credit boom and the subsequent bust. The second was the possibility of resource pressures and the economic downturn giving rise to geopolitical tensions and war.

Consider the first observation. Dr Faber pointed out that most previous bubbles were isolated. Japanese real estate and stock markets were booming in the late 1980s. US technology and internet stocks European telecoms-media-technology (TMT) stocks also boomed in the late 90s. The shocks from the busts were localised. But, since 2002, all asset classes all over the world were booming. In a sense, it was testimony to the influence of the United States on the quality of intellectual discourse and policy-making in the rest of the world.

America lowered the Federal funds rate down to 1.0 percent in 2003. Other countries had to emulate America in spirit if not in magnitude lest their currencies strengthen excessively against the US dollar. Hence, interest rates dropped everywhere. When interest rates drop, saving and depositing money in banks are no longer interesting. Spending, investing and taking risks in financial markets not only become more affordable but also more exciting. Low interest rates facilitate hedonism. People in many countries followed the trend. Household savings declined, credit boomed and so did asset prices almost everywhere from Latin America to Central and Eastern Europe to West Asia to East Asia and South Asia. Naturally, the music had to stop one day.

The world could manage one country living on credit, even if the country was the United States with its large economy. It quickly becomes unsustainable when many countries choose to live by the principle of ‘something for nothing’—borrowing with the hope of rising asset prices bailing them out in future and by running down savings.

This habit led to temporarily faster growth. The world has not had such a sustained spell of 5 percent growth per annum in a long time. Not

only was it unsafe and unsustainable, it also led to a situation of the world running out of resources—real and financial. Therefore, the apogee of American intellectual and soft power also happened to mark the beginning of the end of its economic model. Some paradox that.

So, what does this insight lead us to? The conclusion is that the world again looks up to the United States to show the way out of the mess. If spending and bingeing was a tribute to the American model, the United States has to demonstrate now and lead the way for the rest of the world by saving, by shrinking balance sheets and by returning to sustainable ways of living. That was the premise of Barack Obama’s election campaign and that was the promise of his presidency. Early signs are not encouraging, however.

There is a reluctance to take on special interests as the United States proceeds tortuously in con-

The United States has to demonstrate now and lead the way for the rest of the world by saving, by shrinking balance sheets and by returning to sustainable ways of living.

verting the *de facto* bank nationalisation into a *de jure* one. That would result in change of guard at the top in these institutions, among other things. That partially explains the resistance. But, nationalisation need not be permanent as Sweden and Chile showed earlier in the Nineties. Further, for all the taxpayers’ money that banks have already used up, the upside to the public is not clear. Taking taxpayers for granted risks a taxpayer revolt down the road. It might be a low probability event but if it occurs, it would be hard to contain. States in America have to balance their budgets by law and hence states are bound to raise taxes. In this environment. It will not be an easy sell. But, it will become an impossible if the first and major claim for restoration of bank balance-sheets is the taxpayer rather than the stake-holders who invested for returns. Symmetry and equity demand that they also bear the downside first.

Further, the clamour for some government action is deafening and that is partially because the world has many more commentators than there are countries and problems to deal with. Hence, the fall in the information to noise ratio. The option of doing nothing or doing the minimum that facilitates long-term adjustment without causing total collapse is not being considered. In a recent conversation, Professor Michael Pettis of Peking University perceptively noted that Keynes recommended fiscal stimulus for the United States in the 1930s because America was then a savings-surplus and demand-deficient country. Hence, that advice is more relevant now for China and Germany. To an extent, Japan too falls in that category except that its stock of public debt rules any meaningful stimulus out.

Instead of such context-relevant solutions, fear is being used as the handle to recommend and to request maximum intervention for all and by all. This is not sustainable. Hence, the sudden promise to halve the deficit before the end of Mr Obama's first term. Hence, the promise by the

Even with sound policies, there is no guarantee that the world will come out of the present slump quickly, for the damage is extensive and was done earlier.

Federal Reserve Chairman that monetary stimulus could be swiftly withdrawn. Confusion and conflicting aims reign.

According to *Financial Times* columnist Martin Wolf, "last year marked the end of a hopeful era. Today, it is impossible to rule out a lost decade for the world economy. This has to be prevented. Posterity will not forgive leaders who fail to rise to this great challenge."

We can rephrase it: "It is probable that the world economy will experience a lost decade." Worshipping at the altar of growth has to stop for recovery to begin. In other words, policy should allow some growth disappointment not just for a year or two but even three, if necessary.

Use fiscal policy—where sustainable—to put life back into private demand rather than as a substitute for it. In other words, return cash to the public through tax rebates or simple cheques. If they save it, so be it. They will put it in banks, provided banks are deemed safe. For now, that requires government takes over the rein of banks in the United States. The common equity is, *de facto*, worthless. This needs to be made a *de jure* reality.

Bank nationalisation combined with fiscal policy that simply puts money directly into taxpayers' pockets is the best of the worst possible things governments can do.

Continued insistence on supporting asset prices may well prove to be counterproductive as Japan found out. Mr Wolf reminds us why the problem took so long to be recognized in Japan: "For years, people pretended that the problem was downward overshooting of asset price."

In a normal world, asset prices reflect fundamentals. Sound fundamentals are ensured, among other things, by sound policies. Hence, policies facilitate healthy economic fundamentals; they don't target asset prices. If we are to end the crisis and to come out of this bust, the international intellectual consensus that worshipped economic growth and elevated constantly rising asset prices to a policy goal must break. Asset prices and the financial sector must always be the tails and they should not wag the dog.

After having preached tough love to all other countries in crises, the United States is looking for costless solutions.

Even with sound policies, there is no guarantee that the world will come out of the present slump quickly, for the damage is extensive and was done earlier. Monetary and fiscal solutions applied thus far already contain seeds of a huge inflation shock down the road, unless the medicine is withdrawn correctly and effectively. But, that is not going to be easy. That depends on mindsets breaking free of past shibboleths.

However, common sense has to begin somewhere some time. Sound, minimal and targeted interventions will ensure that the recovery, once it arrives, lasts longer and is durable, instead of being anaemic and erratic. If special interests prevent that, then Dr Faber's second observation becomes pertinent. Indeed, Paul Krugman now thinks that the real stimulus that lifted the American economy out of depression was the biggest public works spending program known as World War II.

That is why with each passing day, the idea of guarding against tail outcomes ('straddling the extremes') becomes more pertinent than ever, which, among other things, means holding on to gold.

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Photo: Brandon Perkins



REVIEW

Terrorising market-states

Al-Qaeda is only the beginning

DHRUVA JAISHANKAR

WITH THE ushering in of the Obama era, the term "war on terror" appears to have fallen permanently from the American national security lexicon. To be fair, the phrase never sat easily with the majority of experts. It was too politically correct for some, being so evidently self-selective in its application. For others it was an insensitive monstrosity, guilty of instigating ever more enmity towards the United States and the Western world. Still others derided it from a semantic standpoint: how can a war against terror be won? How can war even be declared against what is simply a potent means of inflicting violence?

Yet "war on terror" has found an unlikely defendant in Philip Bobbitt, a dapper London-based Texan legal scholar, military historian and strategist, although not for the reasons one might expect. Terror, Mr Bobbitt argues in his 2008 book *Terror and Consent*, is not merely a means of wag-

Review

Terror and Consent—The Wars for the Twenty-First Century

by Philip Bobbitt
Knopf, 688 pages, 2008

ing violence, but an end state that terrorists—such as al-Qaeda—hope to achieve. The United States and like-minded countries, then, are fighting not one but many "wars against terror."

This is but one of many intriguing (and unabashedly iconoclastic) insights Mr Bobbitt has to offer. In *Terror and Consent*, he picks up from where his monumental historical-philosophical tract, *The Shield of Achilles*, left off. Mr Bobbitt's erudite analysis of geopolitics, statehood and the rule of law reflects, in many respects, the most accurate paradigm for the world we live in today. From princely, kingly and territorial states, according to Mr Bobbitt's schema, the prevailing constitutional order evolved to state nations and then nation states, which was the dominant order from the late 19th to late 20th centuries.

Yet since the end of the Cold War, finance, communications and law have tended less and

less to heed national boundaries. This has combined with the changing contract between state and individual, and lead to a new constitutional order: the market state, a state whose legitimacy is based on maximising opportunity for its citizens. It is heady stuff. As the American foreign policy community continues to be mired in petty debates on territorial integrity and international institutions, Mr Bobbitt, in many respects, appears decades ahead of his contemporaries.

Having previously established the emergence of the market state, Mr Bobbitt turns in *Terror and Consent* to another more immediately relevant question: "What kind of terrorism will a market-state produce?" He divides market-states between states of terror and states of consent, and focuses on three forms of international terror: known terrorist networks such as al-Qaeda, the proliferation of weapons of mass destruction, and natural calamities, all of which advance terror in their own ways.

There are reasons to be put off by Mr Bobbitt's tome, or at the very least, aspects of it. There is his unabashed Anglophilia (Harvard historian Niall Ferguson jokingly referred to him as "homo atlanticus redux" in one favourable review). There is his emphasis on the rule of law, something few

Hindu when, in fact, it is predominantly Buddhist.) Concerning his overall thesis, one must ask who exactly constitute the states of consent? The book is frustratingly vague on this point. The United States and member states of the European Union—the "West"—are evident candidates, as are India, Japan, Australia and New Zealand. From there on it gets cloudier. The term doesn't simply apply to major powers or even necessarily representative democracies, but rather states that have solid liberal-democratic institutions. Robert Zoellick would dub them "responsible stakeholders." It therefore becomes easy to interpret *Terror and Consent* as a neo-conservative manifesto, or at least a work that bridges aspects of neo-conservatism with liberal internationalism, given Mr Bobbitt's emphasis on global legitimacy.

There is unfortunately no place for realism—or, rather, Mr Bobbitt's limited definition of it—in his world of market states. Instead, Mr Bobbitt casts aside realism as a relic of the 20th century, the dominant age of nation states. "Realism," he writes, "is increasingly unrealistic. We must look at the internal constitutional life of states to understand their external imperatives."

Finally, Mr Bobbitt may have written about nuclear strategy and military affairs for decades, but he's a relative novice to transnational terrorism and nuclear proliferation. No matter; he brings a fresh pair of eyes to these subjects. A number of prevailing truths get the Bobbitt treatment. He disputes the notion of there being a correlation between poverty and terrorism. He advances the hypothesis of nuclear weapons proliferation being fundamentally different in the age of market states, most notably due to their easy commoditisation. A Q Khan, as one can imagine, perfectly captures this theme and features prominently in one section of the book. Mr Bobbitt, however, sheds little new light on him or his bazaar.

Mr Bobbitt's contradictions are what make him so compelling, and also so divisive a figure in national security scholarship and policy. He remains theoretically revolutionary and stylistically reactionary. He merges military history with contemporary strategy and legal scholarship, although not always seamlessly. He is at his best when he contemplates big ideas, but devotes much time and text to the nitty-gritty of transnational terrorism and legal counter-terrorism measures taken by the United States.

Timing is everything for a book such as this (Mr Bobbitt himself credits much of the success of *The Shield of Achilles* to its release coinciding with 9/11). In an already faddish discipline, Mr Bob-

Mr Bobbitt divides market-states between states of terror and states of consent, and focuses on three forms of international terror: known terrorist networks such as al-Qaeda, the proliferation of weapons of mass destruction, and natural calamities, all of which advance terror in their own ways.

contemporary strategists have the patience or inclination to tolerate. There is his penchant for sweeping history interspersed all too often with detailed Woodwardian narratives of terrorist episodes. There are his frequently esoteric references to literature, which are reminiscent of an earlier era of scholarship. Despite his Southern American drawl, one can almost imagine him—powdered periwig on head, cane in hand—leisurely perusing through the works in the British Museum Reading Room before strolling to his club for drinks with Bertrand Russell.

Mr Bobbitt's Western-centric approach is not just stylistically jarring but also substantively so. (One minor, but telling, error: he appears to believe that the Sinhalese majority in Sri Lanka is

bitt's overwhelming pessimism regarding the United States' strategy in the "wars on terror" doesn't match recent trends. On February 25, the new US Homeland Security Secretary Janet Napolitano failed to even mention the word "terrorism" in her prepared remarks to Congress. This has made it all too easy to dismiss his focus.

But even in India, where terrorism has once again risen in importance following November's attacks in Mumbai, Mr Bobbitt's book is of limited utility. His focus on international terrorism, nu-

clear weapons proliferation and natural calamity should make his insights particularly applicable for Pakistan, which has recently experienced all three in spades. In the case of Pakistan, however, it is its emergence as a market state that remains very much in doubt.

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